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ANNUAL REPORT - 1964

COMPUTING DEVICES OF CANADA LIMITED

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**FINANCIAL HIGHLIGHTS
OF 16th ANNUAL REPORT**

	9 Months ended Sept. 30, 1964	12 Months ended December 31, 1963
Sales, Contracts and Other Revenues	\$15,208,265	\$16,892,111
Net Earnings	\$ 1,118,427	\$ 1,587,524
Earnings per Common Share	\$1.44	\$2.11
Common Shares Outstanding	775,000	750,000*
Earned Surplus	\$ 5,944,116	\$ 4,827,768
Earned Surplus per Common Share	\$7.64**	\$6.44
Dividends per Common Share	—	16¢
Common Dividends Paid	—	\$ 120,000
Preferred Dividends Paid	—	\$ 1,000
Outlay on Land, Buildings and Equipment	\$ 586,810	\$ 1,274,023
Working Capital	\$ 3,899,842	\$ 2,536,713
Number of Employees at fiscal year end	1,293	1,119
Wages and Salaries to Employees	\$ 5,423,800	\$ 6,192,700

*Adjusted for the sub-division of the common shares on a basis of 25 for 1 in September, 1964

**After transfer of \$22,000 to Capital Surplus arising from the redemption of the 200 non-participating, cumulative, redeemable 5% preferred shares of a par value of \$100 each on October 5, 1964

Computing Devices
OF CANADA LIMITED
P.O. BOX 508 • OTTAWA 4 • CANADA



About the cover: The picture shows ancient and modern instruments, and maps used by early explorers.

Resting on the upper map is an Astrolabe and a Position and Homing Indicator.

The Astrolabe symbolizes computers of the past, the PHI, of the present . . .

. . . and tomorrow's computing devices are being developed by our scientists and engineers as they meet the challenges of the future.

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

The sixteenth Annual Report of Computing Devices of Canada Limited, covering the affairs and the financial results of the Company for the fiscal period January 1, 1964 to September 30, 1964, is submitted on behalf of the Board of Directors. The consolidated financial statements of Computing Devices of Canada Limited and its wholly-owned subsidiary in Great Britain, Computing Devices Company Limited, for the fiscal period ended September 30 1964, together with the report of the auditors, Armstrong, Cross & Co., form a part of this report.

The Board of Directors of Computing Devices of Canada Limited extend a very sincere welcome to all who became shareholders of the company since its conversion to a public company in September, 1964.

Except for the year of incorporation and until December 31, 1963, the fiscal period of the Company coincided with the calendar year. Recently the Company's fiscal period was changed to end annually on September 30th. Accordingly, the Company's most recent fiscal period which ended on September 3 1964, consisted of only nine months. The Company's current fiscal period, which began on October 1, 1964, will cover the twelve month period ending September 30, 1965.

Your Company is engaged in the design, development, manufacture and sale of diversified lines of electronic and electro-mechanical equipment and systems for industry and government. Its current major area of development and production is in the field of air navigation and aircraft electronic systems. However, its broad base of interests and experience is expanding into domestic and international markets in the field of technical products and services. These include commercial and military applications of digital and analog computers, displays, photo-optical systems, the ocean sciences, space research and a wide range of specialized technical services. In addition to the sale and manufacture of its own products, the Company sells and manufactures under licence for the Canadian market related products from selected principals in the United States of America, Great Britain and other countries. Since incorporation, Computing Devices of Canada Limited has achieved a substantial growth in sales and earnings with a corresponding expansion in employment, facilities, products and market areas.

SALES, CONTRACTS AND OTHER REVENUES —

Consolidated sales, contracts and other revenues for the nine months ended September 30, 1964 amounted to \$15,208,265 compared to \$16,892,111 for the twelve months ended December 31, 1963. Had the fiscal year not changed, the revenues from all sources earned in the full twelve months of 1964 would have reflected an increase over the year 1963 of approximately \$2,500,000 (15%).

During the nine months of operation in 1964 approximately one-half of the total sales, contracts and other revenues came from products and services supplied, and royalties received from for-

eign customers. Over the past three fiscal years, export sales and revenues have amounted to about \$28,500,000. This represents about 56% of the total sales, contracts and other revenues of the Company. Your Company's international sales efforts have been supported and strengthened by a growing organization of sales representatives and licensees. The Canadian Government has provided valuable assistance through its local and overseas staffs and through the medium of trade shows.

The International Operations of the Bendix Corporation, with whom the Company has a representation agreement covering a number of product lines in particular market areas, has played a major part in the growth of Computing Devices' marketing network. In addition to the support provided by the Bendix organization and its local representatives, the Company has its own resident representatives in certain major market areas. Sales and licence agreements with foreign firms have provided additional channels for international coverage in new product areas.

The overall effect of these various arrangements has been to provide the Company with established marketing and production channels to the U.S.A., the United Kingdom, Germany, France and Italy with secondary outlets to such areas as India, Japan, Australia, and other European and Far Eastern countries.

The wholly-owned subsidiary of your Company, Computing Devices Company Limited, London, England, was incorporated August 31, 1962, for the purpose of representing your Company's products and services in the United Kingdom.

The subsidiary also sells in Europe those products of your Company for which the International Operations Division of the Bendix Corporation does not have the franchise. Additionally, the subsidiary company has undertaken engineering and feasibility study contracts for the Ministry of Aviation as well as the assembly of small quantities of your Company's communications equipment.

NET PROFITS —

The consolidated profit after taxes for the nine months ended September 30, 1964 amounted to \$1,118,427, which represented earnings of \$1.44 per common share. In the full year 1963 the consolidated profit after taxes was \$1,587,524 or \$2.11 per common share based upon the shares then outstanding converted to their equivalent number of 750,000 new common shares in accordance with the subdivision of the common stock in September 1964.

The decline in the net operating profit is due primarily to the fact that 1964 had a fiscal period of only nine months instead of the usual twelve months. Another significant factor was the decline in royalty revenues as a result of the completion of some of the production programs by licensees in other countries. In addition, our expenditures in research and development were greater in the nine-month fiscal period of 1964 than in the full year of 1963 as will be noted later in this report.

CHARGES AGAINST INCOME —

Interest on long term debt was much lower in 1964 than in 1963 due to the repayment by the company, during the fiscal year, of interest-bearing advances from affiliated companies and shareholders. The advances that were retired during the nine month period of operations amounted to \$540,000.

Federal and provincial income taxes were lower in the fiscal period of 1964, compared to 1963, as the result of the lower profit and a greater reduction of taxes arising from increased research expenditures. The Company's program of research and development has benefited from the Canadian Government's policy of encouraging scientific and industrial research.

RESEARCH AND DEVELOPMENT —

As in the past, your company has continued to devote a large proportion of its energies and resources to research and the design and development of new and improved products in our fields of endeavour for both commercial and military purposes.

The nine-month fiscal period ended September 30, 1964 was no exception — the total expenditures on research, design and development in that period amounted to approximately \$1,900,000, of which the Company's share amounted to about \$875,000. The comparable expenditure for the full twelve months of 1963 were approximately \$1,900,000 of which the Company's share was about \$825,000.

Our research and development of new systems and equipment such as the Airborne Digital Computer, Air Navigation and Tactical Control System, Moving Map Display and photographic, optical and communication equipment, as well as commercial products, are the basis of the Company's future growth. Your Company will continue to expend a large proportion of its efforts, skills and funds in research and development activities. It is these activities which lay the foundation for the production of profitable products in the future, with a corresponding increase in the technical services that we can provide in those areas in which our products are sold.

SURPLUS AND DIVIDENDS —

During the nine-month fiscal period the consolidated earned surplus of the Company increased to \$5,944, 116. This was equivalent to \$7.64 per outstanding common share after deduction of the amount of \$22,000 transferred to a Capital Surplus account on October 5, 1964 which arose from the redemption of the preference shares, referred to later.

No dividends were paid during the fiscal period ended 30 September 1964 but your Directors have declared a dividend of thirty cents (0.30) per common share payable January 29, 1965 to shareholders of record on January 8, 1965.

CAPITAL STOCK —

Under Supplementary Letters Patent dated September 21, 1964, the Company was authorized to

increase its capital stock from 30,000 to 60,000 common shares without nominal or par value by the creation of 30,000 additional such shares and to subdivide the resulting 60,000 common shares into 1,500,000 common shares without nominal or par value. On September 24, 1964 the Company offered, to the then existing holders of the 750,000 outstanding new common shares, the right to subscribe, on or before September 29, 1964, for additional new common shares at the price of \$20.00 per share on the basis of one new common share for every thirty new common shares held. The 25,000 shares made available by the rights offering were fully subscribed for, issued and paid. The proceeds, amounting to \$500,000, were added to the general funds of the Company.

As of September 30, 1964 the authorized capital of the Company included 1,500,000 common shares without nominal or par value of which 775,000 shares were issued and fully paid.

The 200 non-participating cumulative redeemable 5% preference shares of the par value of \$100 each, which were outstanding in the balance sheet of September 30, 1964, were all redeemed and cancelled by the Company on October 5, 1964. As required by Section 61 of the Companies Act (Canada), the Company, as of that latter date, transferred the amount of \$22,000 from the Earned Surplus account to a Capital Surplus account.

WORKING CAPITAL —

The net working capital at September 30, 1964 amounted to \$3,899,842. This represented an increase of \$1,363,129 from December 31, 1963.

Accounts receivable from the Government of Canada and Commercial customers were up \$1,259,173, accounting for the major portion of the increase in working capital.

The ratio of current assets to current liabilities at September 30, 1964 was 2.3:1 compared with 1.8:1 at December 31, 1963.

FIXED ASSETS —

The investment in fixed assets declined during the nine-month fiscal period by the net amount of \$149,882. This resulted from the sale of a large computer installation which the Company had purchased and leased in a prior year.

PERSONNEL —

Your Directors recognize the outstanding effort, performance and loyalty received by the Company from all of its officers, managers and staff during the past year and they wish to record their sincere appreciation and thanks.

ON BEHALF OF THE BOARD

C. F. Hembery

C. F. HEMBERY
President and General Manager

AUDITORS' REPORT

To the Shareholders,
Computing Devices of Canada Limited.

We have examined the consolidated balance sheet of Computing Devices of Canada Limited, and its wholly-owned British subsidiary as at September 30, 1964, and the statements of consolidated income and surplus for the nine month period ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. In the case of the wholly-owned British subsidiary, we have relied on the report of another firm of Chartered Accountants.

In our opinion and according to the best of our information and the explanations given to us, and as shown by the books of the Companies, the accompanying consolidated balance sheet and statements of consolidated income and surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Companies as at September 30, 1964, and the results of their operations for the nine month period ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARMSTRONG, CROSS & CO.
Chartered Accountants.

OTTAWA, Ontario,
December 22, 1964.

COMPUTING DEVICES OF CANADA LIMITED

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

As at September 30,

— A S S E T S —

	September 30, 1964	December 31, 1963
CURRENT:		
Cash on hand	\$ 3,825	\$ 3,074
Accounts and amounts receivable, trade (Less allowance for doubtful accounts, 1964 — \$16,741; 1963 — \$16,864)	3,910,897	2,111,687
Miscellaneous deposits, advances and deferred charges	319,267	374,366
Inventories, valued at the lower of cost or market, based on physical count and cost records:		
Finished goods	462,545	660,899
Work in process	1,962,625	2,520,798
Materials	212,345	178,100
TOTAL CURRENT ASSETS	<u>6,871,504</u>	<u>5,848,924</u>
FIXED — at cost:		
Land	69,844	69,844
Buildings	61,574	61,574
Equipment	4,785,185	5,012,750
Leasehold improvements	189,442	111,759
	<u>5,106,045</u>	<u>5,255,927</u>
Less: Accumulated depreciation	2,448,292	2,191,315
Net book value	<u>2,657,753</u>	<u>3,064,612</u>
Deferred development expenses, including tooling, jigs and fixtures	238,980	128,569
	<u>\$ 9,768,237</u>	<u>\$ 9,042,105</u>

Approved on behalf of the Board of Directors:

C. F. HEMBERY, Director

J. A. NORTON, Director

NOTE A:

Common share capital as shown was authorized by Supplementary Letter of Resolution and subdivided the resulting total of 60,000 common shares into 1,500,000 common shares.

NOTE B:

At December 31, 1963 there were 30,000 common shares of no par value. On January 1, 1964, 25 new shares for 1 old share and 25,000 additional shares were issued for a total of 55,000 common shares.

AND ITS WHOLLY-OWNED SUBSIDIARY

TIVE BALANCE SHEET

December 31, 1963

— LIABILITIES AND SHAREHOLDERS' EQUITY —

	September 30, 1964	December 31, 1963
CURRENT:		
Bank loans and overdraft secured	\$ 817,824	\$ 954,908
Accounts payable and accrued charges	863,220	1,062,660
Income, sales and other taxes payable	195,632	204,902
Deferred contract revenue	1,094,986	1,089,741
TOTAL CURRENT LIABILITIES	2,971,662	3,312,211
DEFERRED CREDIT:		
Accumulated tax reductions applicable to future years	275,575	284,514
DEFERRED LIABILITIES:		
Mortgages payable, C.M.H.C. 6½% due November 1, 1987	56,581	57,309
Advances from affiliated companies		480,000
Advances from Shareholders		60,000
	332,156	881,823
SHAREHOLDERS' EQUITY:		
CAPITAL STOCK:		
Authorized:		
200 non-participating, cumulative, redeemable 5% preferred shares, par value \$100.00 each		
1,500,000 common shares of no par value, consideration not to exceed \$5,000,000.00 (See Note A)		
Issued and Fully Paid:		
200 preferred shares	20,000	20,000
775,000 common shares (See Note B)	500,303	303
	520,303	20,303
EARNED SURPLUS (Refer to statement of earned surplus)	5,944,116	4,827,768
	6,464,419	4,848,071
	\$9,768,237	9,042,105

This is the balance sheet referred to in our report to the shareholders' dated December 22, 1964.

Armstrong, Cross & Company
Chartered Accountants

t dated September 21, 1964 which created 30,000 additional common shares
es without nominal or par value.

and fully paid. During 1964, these shares were subdivided in the ratio of
idation of \$20.00 each.

**COMPUTING DEVICES OF CANADA LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY**

CONSOLIDATED COMPARATIVE STATEMENT OF EARNED SURPLUS

For the fiscal periods ended September 30, 1964
and December 31, 1963

	9 months ended September 30, 1964	12 months ended December 31, 1963
Balance at beginning of period	\$ 4,827,768	\$ 3,311,853
Add:		
Capital gains arising from the disposal of fixed assets	2,927	211
Adjustment of prior year's income taxes — net		49,180
Net profit for the year (Refer to statement of profit and loss)	1,118,427	1,587,524
	<u>5,949,122</u>	<u>4,948,768</u>
Deduct:		
Adjustment of prior year's income taxes — net	3,712	
Fee in connection with application for Supplementary Letters Patent	1,294	
Dividends declared and paid		
— Common		120,000
— Preferred		1,000
	<u>5,006</u>	<u>121,000</u>
Balance at end of period	<u>\$ 5,944,116</u>	<u>\$ 4,827,768</u>

**COMPUTING DEVICES OF CANADA LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY**

CONSOLIDATED COMPARATIVE STATEMENT OF PROFIT AND LOSS

For the fiscal periods ended September 30, 1964
and December 31, 1963

	9 months ended September 30, 1964	12 months ended December 31, 1963
Net revenue before taking into account the following expenses	\$ 2,333,536	\$ 3,715,315
Directors' fees	1,761	2,750
Remuneration to Directors and Executive Officers	156,615	189,933
Interest on long-term debt	8,943	35,609
Legal fees	1,381	4,909
Provision for depreciation	465,944	712,214
	<u>634,644</u>	<u>945,415</u>
NET PROFIT BEFORE PROVISION FOR INCOME TAXES.....	1,698,892	2,769,900
Provision for Federal and Provincial income taxes	589,404	1,114,205
Deduct:		
Tax increase in respect of deferred depreciation in prior years (Note A)	8,939	
Add:		
Tax reduction applicable to future periods (Note B)		68,171
	<u>580,465</u>	<u>1,182,376</u>
NET PROFIT TO SURPLUS	\$ 1,118,427	\$ 1,587,524
(Refer to statement of earned surplus)	<u><u> </u></u>	<u><u> </u></u>

NOTE A:

The amount of depreciation claimed for tax purposes in prior years exceeded recorded depreciation by \$547,141 giving rise to a tax reduction of \$284,514. In 1964, the recorded depreciation and patent costs expensed exceeded that claimed for tax purposes by \$17,190 and as a result a transfer was made from the deferred taxes account to taxes payable of \$8,939 as shown by this statement and as reflected in the balance sheet.

NOTE B:

The 1963 tax reduction of \$68,171 is the amount by which income taxes otherwise payable in respect of the year have been reduced by claiming for tax purposes, capital cost allowances in excess of the depreciation recorded in the accounts. This difference is applicable to those future periods in which the amounts claimed for tax purposes will be less than the depreciation recorded in the accounts and is accordingly included in the balance sheet in the item "accumulated tax reductions applicable to future years".

As at September 30, 1964
and December 31, 1963

	September 30, 1964	December 31, 1963
CURRENT ASSETS:		
Cash on hand	\$ 3,825	\$ 3,074
Accounts and amounts receivable, trade	3,910,897	2,111,687
Miscellaneous deposits, advances and deferred charges	319,267	374,366
Inventories	2,637,515	3,359,797
	<hr/> 6,871,504	<hr/> 5,848,924
CURRENT LIABILITIES:		
Due to bank	817,824	954,908
Accounts payable and accruals	863,220	1,062,660
Income, sales and other taxes payable	195,632	204,902
Deferred contract revenue	1,094,986	1,089,741
	<hr/> 2,971,662	<hr/> 3,312,211
Working capital	3,899,842	2,536,713
Increase in working capital		1,363,129
	<hr/> \$ 3,899,842	<hr/> \$ 3,899,842

CONSOLIDATED SOURCE AND APPLICATION OF FUNDS
For the nine months ended September 30, 1964

SOURCE: (FUNDS CAME FROM)

Net profit for the year		\$ 1,118,427
Add: Expenses not requiring cash outlay		
Depreciation	\$ 465,944	
Less: Tax increase in respect of deferred depreciation in prior years	8,939	457,005
		<u>1,575,432</u>
Issue of common shares		500,000
Development costs transferred		36,150
Disposal of fixed assets		527,725
Capital gains from disposal of fixed assets		<u>2,927</u>
		2,642,234

APPLICATION: (FUNDS WERE SPENT FOR)

Development costs deferred	146,561
Purchase of fixed assets	586,810
Repayment of advances from affiliated companies	480,000
Repayment of advances from Shareholders	60,000
Repayment of C.M.H.C. mortgage	728
Adjustment of prior year's income taxes — Federal	2,468
— Ontario	1,244
Fee in connection with application for Supplementary Letters Patent	1,294
	<hr/> 1,279,105
	<hr/> \$ 1,363,129

COMPUTING DEVICES OF CANADA LIMITED

DIRECTORS:

Malcolm P. Ferguson
Charles F. Hembery
Joseph A. Norton
L. Edwin Smart
George L. Stephens
George E. Stoll
J. Frederick Taylor

OFFICERS:

Charles F. Hembery, President and General Manager
Joseph A. Norton, Vice-President — Research and Engineering
James E. Smith Jr., Vice-President — Marketing
Cecil K. Wolff, Vice-President — Finance and Administration
Charles R. Grove, Secretary

OFFICES:

Head Office and Plant — Bells Corners, Ontario

Sales Offices — Ottawa, Toronto, Ont.; Montreal, Que.;
Halifax, N.S.; Washington (U.S.A.)
Los Angeles (U.S.A.)

Service Depots — Montreal, Que., Halifax, Lunenburg, Sydney and
Yarmouth, N.S., Burin and Grand Banks, Nfld.

SUBSIDIARY COMPANY:

Computing Devices Company Limited,
London, England

REGISTER AND TRANSFER AGENT:

Canada Permanent Trust Company —
Toronto and Montreal

AUDITORS:

Armstrong, Cross & Company
Ottawa, Ontario

